

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 SSM-03 SP-02 USIA-06 AID-05 EB-07
NSC-05 CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01
CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03
LAB-04 SIL-01 H-01 DODE-00 PA-01 PRS-01 /084 W
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C O N F I D E N T I A L CAIRO 17307

E.O. 11652: GDS
TAGS: ECON EFIN EAID EC
SUBJ: EGYPTIAN BUDGET

REF: CAIRO 17201

1. CABINET ASSEMBLES TODAY (DEC. 15) TO CONSIDER
"AUSTERITY" BUDGET PROPOSED BY DEP PM KAISOUNI'S
ECONOMIC GROUP (REFTEL). ACTION TAKEN BY CABINET
WILL HAVE MAJOR IMPACT ON EGYPTIAN ECONOMY IN SHORT
RUN AND COULD ALSO AFFECT COUNTRY'S FUTURE.

2. ECONOMIC GROUP (EG) SUPPORTERS ARE WORRIED THAT
PREPONDERANCE OF OPINION IN CABINET IS STRONGLY
OPPOSED TO REDUCED BUDGET AND WILL FIGHT ITS ADOPTION.
MINISTERS OF INDUSTRY, AGRICULTURE, SOCIAL AFFAIRS
AND HOUSING ARE REPORTEDLY READY TO ADD THEIR VOICES
TO THOSE OF DEP P/MS GHANEM AND SULTAN IN OPPOSITION
TO COMBINATION OF PROPOSED CUTS, INCREASED PRICES
AND REDUCED SUBSIDIES THAT ARE EG'S RECOMMENDATIONS.
NOT EVEN ALL OF EG MINISTERS ARE IN FAVOR OF ALL
REFORMS, SINCE AS MENTIONED REFTEL, MIN TRADE/SUPPLY
TEWFIK IS INSISTING THAT SUBSIDIES BE MAINTAINED.

3. MINFIN U/SEC RIZK, WHO IS SOLIDLY IN FAVOR OF
REVISED BUDGET AND ACTIVELY PARTICIPATED IN ITS
PREPARATION, TOLD ECONCOUN THAT MAJOR PROBLEM RESULTS
FROM INABILITY OF MOST MINISTERS TO GRASP MAGNITUDE
OF COUNTRY'S ECONOMIC PLIGHT. HE SAYS THAT BUDGET
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IS ESSENTIALLY SAME ONE THAT WAS PUT FORWARD BY

EX-MINFIN ABU ISMAIL, WITH A FEW CHANGES AFFECTING PRINCIPALLY FURTHER REDUCTIONS IN SUBSIDIES AND INVESTMENT; ISAMIL'S BUDGET WAS NOT ACCEPTABLE TO PREVIOUS CABINET. SINCE MOST OF NON-EG MINISTERS ARE STILL IN OFFICE, RIZK SEES LITTLE HOPE THAT THEY WILL ACCEPT NEW, TOUGHER BUDGET. (IN THIS CONNECTION, RIZK POINTED OUT THAT IF CABINET APPROVES KAISOUNI BUDGET, WHICH HE SEES AS MAIN IMPLEMENTATION HURDLE, APPROVAL BY PEOPLES ASSEMBLY IS FAIRLY CERTAIN BECAUSE IN ADDITION TO GOVERNMENT MAJORITY, GOE CAN COUNT ON ACTIVE SUPPORT BY BUDGET AND FINANCE COMMITTEE, NOW CHAIRED BY ABU ISMAIL.)

4. SINCE VAST MAJORITY OF MINISTERS ARE NOT DIRECTLY CONCERNED WITH PROBLEMS OF RAISING FUNDS AND MANAGING FINANCES, BUT ARE CONCERNED WITH IMPLEMENTING THEIR OWN PROGRAMS AND MAINTAINING PUBLIC POPULARITY, CURRENT VIEW OF KNOWLEDGEABLE OBSERVERS IS THAT CABINET WILL NOT ACCEPT BUDGET AS PROPOSED UNLESS-- AND ONLY IF -- PM SALEM PUTS POLITICAL SEAL OF APPROVAL ON WHAT IS PERCEIVED AS A PERIOD OF RELATIVE AUSTERITY. SALEM HAS BEEN IN CLOSE CONTACT WITH EG, AND IS QUITE AWARE OF THEIR RECOMMENDATIONS, BUT WE HAVE IMPRESSION THAT HE WILL CAREFULLY CONSIDER VIEWS OF OTHER MINISTERS AS WELL. STRENGTH OF THEIR OPPOSITION, WHICH IS EXPECTED TO BE VEHEMENT, MAY BE DECIDING FACTOR.

5. COMMENT. CABINET ACTIONS WILL BE CLOSELY WATCHED BY MANY PEOPLE OUTSIDE OF EGYPT. IMF REPS HAVE MADE THEIR POSITION ON STANDBY AGREEMENT VERY CLEAR, AND FAILURE TO ACCEPT EG BUDGET COULD CLOSE THE DOOR TO FUND SUPPORT, AND ALL THE ADDITIONAL ASSISTANCE THAT APPEARS TO BE CONTINGENT UPON IT. SAUDI MINFIN EL KHAYL IS REPORTEDLY IN TOWN TO ADD, INTER ALIA, PROMISES OF ARAB MONEY TO SHORE UP ECONOMY IF BULLET IS BITTEN. EGYPTIANS THINK MONEY TO WHICH HE IS REFERRING IS GODE PACKAGE OF \$500 MILLION, WHICH IS NOT MUCH IN TERMS OF WHAT WILL BE NEEDED (AND WHICH APPEARS TO BE DELAYED AGAIN-
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SEPTTEL) AS A SMALL CARROT TO GO WITH BIG STICK OF EG BUDGET.
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Message Attributes

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